

CITY OF PRIMGHAR
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Examination Report	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Monthly Bank Reconciliations	B 7
Petty Cash	C 7
City Council Minutes	D 7
Business Transactions	E 8
Annual Financial Report	F 8
Journal Entries	G 8
Chart of Accounts	H 8
Local Option Sales Tax	I 8
Payroll	J 9
Urban Renewal Report	K 9
Certified Budget	L 9

CITY OF PRIMGHAR

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kurt Edwards	Mayor	January, 2016
Clara Black	Council Member	January, 2014
Glen Schueller	Council Member	January, 2014
Brad Stevens	Council Member	January, 2014
Michael Wilbur	Council Member	January, 2016
Dee VanderPol	Council Member	January, 2016
Marlene Anderson	City Clerk/Treasurer	Indefinite
Bruce Green	Attorney	Indefinite

HUNZELMAN, PUTZIER & Co., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

P.O. BOX 398
1100 WEST MILWAUKEE
STORM LAKE, IOWA 50588
712-732-3653
FAX 712-732-3662
www.hpcocpa.com

Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Primghar pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Primghar for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Primghar, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Primghar, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Primghar and other parties to whom the City of Primghar may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Hungelman, Putzier & Co., PLLC

March 27, 2014

DETAILED RECOMMENDATIONS

CITY OF PRIMGHAR
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not reviewed by an independent person.

Recommendation – Monthly bank reconciliations should be reviewed by an independent person.

- (C) Petty Cash – The City's petty cash funds were not included in the City's accounting records and resulting fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including petty cash, should be included in the Clerk's accounting system.

- (D) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for two meetings tested were not published within fifteen days. In addition, the published minutes did not include a summary of all receipts as required by Chapter 372.13(6).

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The City should also include a summary of all receipts in the publication of minutes.

CITY OF PRIMGHAR
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (E) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kurt Edwards, Mayor, Owner of Nicholson & Edwards	Purchase of generator diesel fuel	\$8,793
Clara Black, Council Member, Husband owns Black's Farm Store	Supplies	\$31

In accordance with Chapter 362.5(k) of the Code of Iowa, the transactions with the Council member's husband do not appear to represent a conflict of interest since the total transactions were less than \$2,500. The transactions with Nicholson & Edwards may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures" The City's Annual Financial Report included receipts and disbursements which do not agree with the amounts recorded in the City's records.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

- (G) Journal Entries – Journal entries are not reviewed and approved by an independent person before being posted to the City's records.

Recommendation – The City should have journal entries reviewed and approved by an independent person prior to posting them to the City's records.

- (H) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee (CFC) on September 25, 2002. Expenditures for the Capital Projects Fund and Debt Service Fund are coded to the public works function rather than the capital projects function and debt service function, respectively.

Recommendation – To provide better financial information and control, the CFC chart of accounts, or equivalent, should be followed.

- (I) Local Option Sales Tax (LOST) – The LOST ballot requires 50% of LOST collections be allocated to the Baum-Harmon Hospital. The City may use the remaining funds for any other lawful purpose. During the month of July 2012, LOST receipts were inadvertently posted to the Road Use Tax fund (RUT) and RUT receipts were posted to the LOST fund. The July contribution to Baum-Harmon Hospital was then calculated based on the RUT deposited into LOST, causing the Hospital contribution to be less than the required 50% allocation.

Recommendation – The City should take care to post LOST and RUT receipts to the correct accounts to ensure that Baum-Harmon Hospital is properly allocated 50% of LOST receipts each month.

CITY OF PRIMGHAR
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

(J) Payroll – City employees are required to complete time cards. The City Council approves all pay increases. The following were identified:

- Although time cards are maintained for all employees, there was no indication the time cards had been reviewed by appropriate supervisory personnel prior to preparation of the payroll.
- Annual wage increases for all City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.
- One time card examined showed a difference of five hours between hours worked and the number of hours paid out on that employee's paycheck.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. Wages of employees should be adequately documented in the City Council minutes.

(K) Urban Renewal Report –The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the receipts, disbursements and ending cash balance on the Levy Authority Summary does not agree with the City's records.

Recommendation – The City should ensure the balances reported on the Levy Authority Summary agree with the City's records.

(L) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the health and social services, culture and recreation, general governmental, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget